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BUREAU OF CONSUMER FINANCIAL PROTECTION

Supervisory Highlights: Summer 2016

AGENCY: Bureau of Consumer Financial Protection.

ACTION: Supervisory Highlights; notice.

SUMMARY: The Bureau of Consumer Financial Protection (CFPB) is issuing its twelfth edition of its Supervisory Highlights. In this issue of *Supervisory Highlights*, we report examination findings in the areas of auto originations, debt collection, mortgage origination, small-dollar lending, and fair lending. As in past editions, this report includes information about a recent public enforcement action that was a result, at least in part, of our supervisory work. The report also includes information on our coordination with state and federal regulators on supervisory matters, as well as information on recently released guidance.

DATES: The Bureau released this edition of the Supervisory Highlights on its website on June 30, 2016.

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SUPPLEMENTARY INFORMATION:

1. Introduction

As the Consumer Financial Protection Bureau (CFPB or Bureau) enters its fifth year, it continues to examine bank and nonbank providers of consumer financial products and services under the Bureau's jurisdiction.¹ In this twelfth edition of *Supervisory Highlights*, the CFPB

¹ The CFPB supervises depository institutions and credit unions with total assets of more than \$10 billion, and their affiliates. In addition, the CFPB has authority under the Dodd-Frank Wall Street Reform and Consumer Protection

shares recent supervisory observations in the areas of auto origination, debt collection, mortgage origination, small-dollar lending and fair lending. The findings reported here reflect information obtained from supervisory activities completed during the period under review. In some instances, not all corrective actions, including through enforcement, have been completed at the time of this report's publication.

The CFPB's supervisory activities have either led to or supported a recent public enforcement action, requiring nearly \$5 million in consumer remediation and an additional \$3 million in civil money penalties.² In addition to these public enforcement actions, Supervision continues to resolve violations using non-public supervisory actions. When Supervision examinations determine that a supervised entity has violated a statute or regulation, Supervision directs the entity to implement appropriate corrective measures, including remediation of consumer harm when appropriate.

Recent supervisory resolutions resulted in restitution³ of approximately \$24.5 million to more than 257,000 consumers. Other corrective actions included, for example, developing improved policies and procedures, building enhanced monitoring systems to ensure compliance, and improving training for employees.

Act (Dodd-Frank Act) to supervise nonbanks, regardless of size, in certain specific markets: mortgage companies (originators, brokers, servicers, and providers of loan modification or foreclosure relief services); payday lenders; and private education lenders.

The CFPB may also supervise "larger participants" in other nonbank markets as the CFPB defines by rule. To date, the CFPB has issued five rules defining larger participants in the following markets: consumer reporting (effective September 2012), consumer debt collection (effective January 2013), student loan servicing (effective March 2014), international money transfers (effective December 2014) and automobile financing (effective August 2015).

² The CFPB Office of Enforcement also brought other actions unrelated to supervisory activities.

³ The term "restitution" as used in this report refers specifically to monetary relief (or redress) to consumers, whereas remediation includes both monetary and non-monetary forms of relief.

This report highlights supervision work generally completed between January 2016 and April 2016 (unless otherwise stated), though some completion dates may vary. Any questions or comments from supervised entities can be directed to CFPB_Supervision@cfpb.gov.

2. Supervisory Observations

Below are some of Supervision's recent examination observations in automobile origination, debt collection, mortgage origination, small-dollar lending and fair lending.

2.1 Automobile origination

The Dodd-Frank Act⁴ gave the CFPB supervisory authority over “larger participants” of certain markets for consumer financial products or services as the Bureau defines by rulemaking. In June 2015, the CFPB finalized its automobile finance market larger participant regulation.⁵ In this market, automobile loans can be made through direct or indirect lending channels. For direct lending, consumers go directly to a bank, credit union, or other lender and apply for and obtain a loan. Consumers will commonly get an interest rate quote or a conditional commitment letter from the bank or credit union before going to the dealership to buy an automobile. In indirect lending, also called dealer-arranged financing, consumers obtain auto financing from a lender through a dealership.

The CFPB conducted examinations focused on assessing compliance management systems (CMS) and automobile financing practices to determine whether entities are complying with applicable Federal consumer financial laws.

2.1.1 Deceptive practice in advertising add-on gap coverage products and disclosure of payment deferral terms

⁴ 12 U.S.C. 5514(a)(1)(B).

⁵ 12 CFR 1090.108.

Examiners determined that one or more auto lenders deceptively advertised the benefits of their gap coverage products, leaving the impression that these products would fully cover the remaining balance of a consumer's loan in the event of vehicle loss.⁶ In fact, the product only covered amounts below a certain loan to value ratio. Bureau examiners further found that one or more auto lenders engaged in a deceptive practice by using a telephone script that created the false overall net impression that the only effects of taking advantage of a loan deferral would be to extend the maturity of the loan and to accrue interest during the deferral, but omitted informing consumers that the subsequent payment would be applied to the interest earned on the unpaid amount financed from the date of the last payment received from the consumer. This way of applying the payment could result in the consumer paying more finance charges than originally disclosed. These violations are under review by the Bureau to determine what, if any, remedial and corrective actions should be undertaken by the relevant financial institutions.

2.1.2 CMS deficiencies

At one or more institutions, examiners determined that an overall weak CMS allowed violations of Federal consumer financial law during the review period. Weaknesses included the failure to raise compliance-related issues to the institution's board of directors or other principal (Board); failure to follow institution's policies and procedures in daily practices; failure to properly monitor and correct business line practices to align with Federal consumer financial law; failure to adequately track training completed by employees and the Board; and failure to adequately follow up on consumer complaints with a corresponding failure of compliance audit to highlight deficiencies in the consumer complaint response process. The relevant financial

⁶ An act or practice is deceptive when there is a material representation, omission, act or practice that misleads or is likely to mislead the consumer and the consumer has a reasonable interpretation of the representation, omission, act or practice. 12 U.S.C. 5536(a)(1)(B) prohibits deceptive acts or practices.

institutions have undertaken remedial and corrective actions regarding these violations, which are under review by the Bureau.

2.2 Debt collection

The Supervision program covers certain bank and nonbank creditors who originate and collect their own debt, as well as the larger nonbank third-party debt collectors. During recent examinations, examiners identified an unfair practice and violations of the Fair Debt Collection Practices Act (FDCPA).⁷

2.2.1 Miscoding of accounts unsuitable for sale by debt sellers

During one or more examinations, examiners determined that debt sellers, as a result of widespread coding errors, sold thousands of debts that did not properly reflect that: (1) the accounts were in bankruptcy, (2) the debt sellers had concluded the debts were products of fraud, or (3) the accounts had been settled in full. The relevant accounts sold were in, or likely to be subject to, collections. Supervision concluded that this practice was unfair.⁸

In some cases, coding failed to reflect a pending bankruptcy proceeding when the debt seller had received notice that the consumer had filed for bankruptcy. In other instances, one or more debt sellers either failed to code accounts to indicate that a fraud claim was pending or failed to code accounts to indicate that fraud had occurred. In other cases, one or more debt sellers failed to include codes indicating that the debt seller(s) had settled the relevant accounts in full. These errors caused or were likely to cause substantial injury in the form of subjecting consumers to debt collection efforts either: (1) prohibited by the automatic stay provisions of the

⁷ 15 U.S.C. 1692-1692p.

⁸ 12 U.S.C. 5531(c); 5536(a)(1)(B).

Bankruptcy Code,⁹ or (2) on debts for which the consumer was not responsible because the relevant accounts were impacted by fraud or were settled in full. Supervision directed one or more debt sellers to redress consumers impacted by each category of the three coding errors and to enhance service provider oversight to include critical vendors performing collections and processes relating to debt sale arrangements, such as suppliers providing coding services.

2.2.2 Use of misleading statements regarding repayment options

Section 807(10) of the FDCPA prohibits a debt collector from using any false representation or deceptive means to collect any debt.¹⁰ Examiners determined that one or more collectors falsely represented to consumers that a down payment was necessary in order to establish a repayment arrangement, when the collectors' policies and procedures included no such requirement. In other cases, one or more collectors falsely represented that the only option for repayment was using a checking account, when the debt collectors' policies and procedures did not limit repayment to checking accounts. Supervision directed one or more debt collectors to analyze their process to determine why the collectors made false representations to consumers regarding payment options and based on such analysis, to determine the appropriate corrective action to ensure future compliance.

2.3 Mortgage origination

During the review period covered by this report, several mortgage origination examinations focused upon reviewing compliance with provisions of CFPB's Title XIV rules,¹¹

⁹ 11 U.S.C. 362.

¹⁰ 15 U.S.C. 1692e(10).

¹¹ These Title XIV rules include the Loan Originator Rule (12 CFR 1026.36), the Ability to Repay Rule (12 CFR 1026.43), and rules reflecting amendments to the Equal Credit Opportunity Act and Truth in Lending Act regarding appraisals and valuations (12 CFR 1002.14 and 12 CFR 1026.35).

existing Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA)¹² disclosure provisions,¹³ and other applicable Federal consumer financial laws. Examiners also evaluated entities' CMS. Examiners found general compliance with the reviewed Federal consumer financial laws, though many entities continue to have CMS deficiencies.

2.3.1 Incorrect calculation of the amount financed on loans with discount credits

Regulation Z requires the amount financed to be calculated by determining the principal loan amount or the cash price (minus any down payment), adding any other amounts that are financed by the creditor and that are not part of the finance charge, and subtracting any prepaid finance charge.¹⁴ Regulation Z also provides that finance charges disclosed are treated as accurate if they are understated by no more than \$100 or are greater than the amount required to be disclosed.¹⁵ One or more institutions incorrectly calculated the amount financed on loans with discount credits, and subsequently incorrectly calculated the finance charge on the same loans. The calculation method used to determine the amount financed for these loans resulted in a negative finance charge and an amount financed that exceeded the stated loan amount, resulting in a violation of Regulation Z. Supervision directed that the practice cease and that training and revised policies and procedures be provided to ensure that disclosures were calculated accurately.

2.3.2 Failure to comply with RESPA Section 8

¹² TILA is implemented by Regulation Z and RESPA by Regulation X.

¹³ These mortgage origination examination findings cover a period preceding the effective date of the Know Before You Owe Integrated Disclosure Rule. The disclosures reviewed in these exams are the Good Faith Estimate (GFE), the Truth in Lending disclosure, and the HUD-1 form.

¹⁴ 12 CFR 1026.18(b).

¹⁵ 12 CFR 1026.18(d)(1).

RESPA Section 8 and its implementing Regulation X generally prohibit the acceptance of any fee, kickback or other thing of value in exchange for a referral.¹⁶ An affiliated business arrangement (ABA) is permitted so long as it meets the requirements of RESPA by not offering anything of value in exchange for a referral.¹⁷ Bureau examiners found that one or more institutions had ABAs that did not fully meet the requirements of a compliant ABA under RESPA. One or more institutions provided a referral and required the use of an affiliated provider of flood determination and tax services, a settlement service that is not among the prescribed settlement services (attorney, credit reporting agency or real estate appraiser chosen by the lender) that may be required by a lender who makes a referral and has a compliant ABA.¹⁸ The majority of consumers who received the incorrect ABA disclosure did not pay the fees charged by the affiliated service provider as these fees were lender paid. Supervision directed the institutions to revise the affiliated business disclosures to avoid improper referrals.

2.3.3 Failure to provide Fair Credit Reporting Act adverse action notices

Section 615(a) of the Fair Credit Reporting Act (FCRA)¹⁹ requires that if any person takes any adverse action with respect to any consumer that is based on information contained in a consumer report, the person must provide the consumer with notice of the adverse action (*e.g.*, a denial of credit) including: (1) the name, address, and telephone number of the consumer reporting agency that furnished the report to the person; (2) a statement that the consumer reporting agency did not make the decision to take the adverse action; (3) the consumer's right to obtain a free copy of a consumer report from that consumer reporting agency; and (4) the

¹⁶ 12 U.S.C. 2607(a); 12 CFR 1024.14(b).

¹⁷ 12 U.S.C. 2607(c)(4); 12 CFR 1024.15.

¹⁸ 12 CFR 1024.15(b)(2).

¹⁹ 15 U.S.C. 1681m(a).

consumer's right to dispute with the furnishing consumer reporting agency the accuracy or completeness of information contained the consumer report.²⁰ One or more institutions took adverse action based on information in consumer reports²¹ but failed to make the required disclosures. Examiners found these actions to be violations caused by a lack of both appropriate training and adequate policies and procedures. Supervision directed the institutions to revise their training and policies and procedures mechanisms to ensure that employees provide FCRA-required information on adverse action notices.

2.3.4 Failure to properly disclose interest on interest-only loans

Regulation Z requires that creditors disclose interest-only loan payment amounts that will be applied to interest and principal. These amounts must be itemized and labeled as “interest payment” and “principal payment.”²² One or more institutions offering interest-only bridge loans²³ failed to accurately disclose the interest payment because it erroneously included a portion of the monthly payment amount that was to be applied to fees financed into the principal balance. This failure, due to a software error to separately itemize and properly disclose the correct interest and principal payment, violated Regulation Z. Supervision directed the institutions to examine and assess whether the monthly payment amounts of the affected loans were correctly applied to accrued interest and the principal amount. Institutions were also

²⁰ 15 U.S.C. 1681m(a)(3)-(4). If a numerical credit score is used in taking the adverse action, the credit score and other score-related information is also required. *See* 15 U.S.C. 1681m(a)(2).

²¹ The credit score was not a factor in these decisions.

²² 12 CFR 1026.18(s)(3)(ii)(B).

²³ A bridge loan is a short term loan with a term of 12 months or less, such as a loan to finance the purchase of a new dwelling, or connected with the acquisition or construction of a dwelling intended to become the consumer's principal dwelling. *See* 12 CFR 1026.32(d)(1)(ii)(B), 1026.35(b)(2)(i)(C) and 1026.43(a)(3)(ii).

directed to ensure that the final balloon payment was assessed in accordance with the mortgage note.

2.3.5 CMS deficiencies

At one or more institutions, examiners concluded that a weak CMS allowed violations of Regulations V, X, and Z to occur. For example, one or more supervised institutions had weak oversight of automated systems, including inadequate testing of codes that calculate the finance charge and the amount financed when originating residential loans to consumers. In addition, one or more supervised entities failed to monitor for changes that would require updated disclosures to comply with applicable Federal consumer financial laws.

To address the above findings, Supervision directed entities to enhance their monitoring and corrective action and compliance audit practices prior to using revised disclosures, and to revise training, policies and procedures, monitoring and corrective action, and compliance audit practices to ensure that adverse action notices were properly completed. After Supervision notified the entities' management of these findings, the entities took corrective action to improve their CMS.

2.4 Small-dollar lending

The Dodd-Frank Act gave the CFPB supervisory and enforcement authority over payday lenders, who generally provide small-dollar loans directly to consumers. Since launching its payday lending supervisory program in January 2012, the Bureau has conducted multiple examinations for compliance with Federal consumer laws. During the review period, examiners evaluated lenders' compliance with Regulation E,²⁴ which implements the Electronic Fund

²⁴ 12 CFR part 1005.

Transfer Act.²⁵ Among other things, these reviews assessed compliance with requirements related to preauthorized electronic fund transfers (EFTs).

Regulation E provides that when the amount of a preauthorized EFT differs from the preceding EFT, the designated payee must provide notice in advance of the transfer. It also provides an optional, alternative approach whereby the payee may give the consumer the option of receiving notice only when the amount of a payment either falls outside a specified range, or only when the transfer differs from the most recent transfer by more than the agreed upon amount. The Rule commentary provides that the specified range must be one that could be anticipated by the consumer.

Examiners found that the installment loan agreements of one or more entities failed to set out an acceptable range of amounts to be debited, in lieu of providing individual notice of transfers of varying amounts. These ranges could not be anticipated by the consumer because they contained ambiguous or undefined terms in their descriptions of the upper and lower limits of the range. When examiners found such violations, Supervision directed that entities take the following steps:

For new loans, revise loan agreements to specify a range of amounts that consumers can reasonably anticipate if the firms elect to continue to give the consumer the option of receiving notice of a range of transfers instead of providing advance notice of each preauthorized EFT that varies in amount.

For existing loans not governed by a revised agreement, notify borrowers of the amount of any new transfer that will vary from the amount of the previous transfer or from the preauthorized amount before initiating the new transfer.

²⁵ 15 U.S.C. 1693 *et seq.*

2.5 *Fair Lending*

2.5.1 *Reporting actions taken for conditionally-approved applications with unmet underwriting conditions*

Compliance with the Home Mortgage Disclosure Act (HMDA) and Regulation C remains a top priority in the Bureau’s fair lending examinations.²⁶ Among other things, Regulation C requires covered depository and non-depository institutions to submit to the appropriate Federal agency data they collect and record pursuant to Regulation C, including the type of action taken on reportable transactions.²⁷ Financial institutions use the codes listed in Appendix A of Regulation C when reporting the type of action taken on an application or loan.²⁸ Under Regulation C, when an institution issues a loan approval subject to the applicant’s meeting underwriting conditions and the application does not result in an origination, the reported “action taken” code varies according to the following circumstances:²⁹

If the institution sent the applicant a written notice of incompleteness pursuant to Regulation B,³⁰ and the applicant responded to the request for additional information within the period of time specified in the notice but the applicant did not meet the

²⁶ See CFPB Bulletin 2013-11, *Home Mortgage Disclosure Act (HMDA) and Regulation C – Compliance Management; CFPB HMDA Resubmission Schedule and Guidelines; and HMDA Enforcement*, available at http://files.consumerfinance.gov/f/201310_cfpb_hmda_compliance-bulletin_fair-lending.pdf.

²⁷ 12 CFR 1003.4(a), (a)(8); 12 CFR 1003.5(a)(1).

²⁸ See 12 CFR 1003, app. A, I.B.

²⁹ Underwriting conditions here do not include “customary loan commitment or loan-closing conditions, such as a clear-title requirement or an acceptable property survey.” 12 CFR part 1003, Supp. I, 1003.4, comment 4(a)(8)-4.

³⁰ See 12 CFR 1002.9(c)(2).

underwriting conditions, then the action taken is reported as “Application denied” (Code 3).³¹

If the institution sent the applicant a written notice of incompleteness pursuant to Regulation B, and the applicant did not respond to the request for additional information within the period of time specified in the notice, then the action taken is reported as “File closed for incompleteness” (Code 5).³²

If the institution did not send the applicant a written notice of incompleteness pursuant to Regulation B, and the applicant did not meet the underwriting conditions, then the action taken is reported as “Application denied” (Code 3).³³

If the applicant expressly withdrew the application before a credit decision was made, then the action taken is reported as “Application withdrawn” (Code 4).³⁴

During one or more HMDA data integrity reviews conducted substantially within the last year, examiners found that after issuing a conditional approval subject to underwriting conditions, the institutions did not accurately report the action taken on the loans or applications. For example, examiners found where one or more institutions issued a conditional approval subject to the applicants meeting underwriting conditions, and then the applicants withdrew their applications before the institutions made a credit decision, the institutions incorrectly coded the

³¹ See 12 CFR part 1003, Supp. I, 1003.4, comment 4(a)(8)-4 (financial institutions report Code 3, “Application denied,” “[i]f an institution issues a loan approval subject to the applicant’s meeting underwriting conditions (other than customary loan commitment or loan-closing conditions, such as a clear-title requirement or an acceptable property survey) and the applicant does not meet them”).

³² 12 CFR 1003 app. A, I.B.1.e (“Use Code 5 if you sent a written notice of incompleteness under 1002.9(c)(2) of Regulation B (Equal Credit Opportunity) and the applicant did not respond to your request for additional information within the period of time specified in your notice.”).

³³ See 12 CFR part 1003, Supp. I, 1003.4, comment 4(a)(8)-4.

³⁴ 12 CFR 1003, app. A, I.B.1.d (“Use Code 4 only when the application is expressly withdrawn by the applicant before a credit decision is made.”).

action taken as “Application denied” (Code 3) or “File closed for incompleteness” (Code 5) instead of “Application withdrawn” (Code 4). In other instances, examiners found that one or more institutions incorrectly coded the action taken as “Application approved but not accepted” (Code 2) instead of “Application denied” (Code 3) after the applicants failed to respond to a conditional approval subject to the applicants meeting underwriting conditions, and did not send the applicants either a written notice of incompleteness or an adverse action notice as required by Regulation B.³⁵

Supervision directed one or more institutions to enhance their policies and procedures regarding their HMDA reporting of the actions taken on loans and applications and, where necessary, provide adverse action notices. Supervision also required one or more institutions to resubmit their HMDA Loan Application Register (LAR) where the number of errors exceeded the CFPB’s HMDA resubmission thresholds.

2.5.2 Equal Credit Opportunity Act special purpose credit programs

The Equal Credit Opportunity Act (ECOA)³⁶ and Regulation B³⁷ permit a creditor to extend special purpose credit to applicants who meet eligibility requirements for certain types of credit programs.³⁸ Regulation B specifically confers special purpose credit program status upon:

Any special purpose credit program offered by a for-profit organization, or in which such an organization participates to meet special social needs, if:

³⁵ 12 CFR 1002.9(a)(1)(ii).

³⁶ 15 U.S.C. 1601 *et seq.*

³⁷ 12 CFR part 1002.

³⁸ 15 U.S.C. 1691(c)(3) (providing that ECOA’s prohibitions against discrimination are not violated when a creditor refuses to extend credit offered pursuant to certain special purpose credit programs satisfying Regulation B-prescribed standards); 12 CFR 1002.8 (special purpose credit program standards).

- (i) The program is established and administered pursuant to a written plan that identifies the class of persons that the program is designed to benefit and sets forth the procedures and standards for extending credit pursuant to the program; and
- (ii) The program is established and administered to extend credit to a class of persons who, under the organization's customary standards of creditworthiness, probably would not receive such credit or would receive it on less favorable terms than are ordinarily available to other applicants applying to the organization for a similar type and amount of credit.³⁹

The commentary to Regulation B clarifies that, in order to satisfy these requirements, “a for-profit organization must determine that the program will benefit a class of people who would otherwise be denied credit or would receive it on less favorable terms. This determination can be based on a broad analysis using the organization's own research or data from outside sources, including governmental reports and studies.”⁴⁰

During the course of the Bureau's supervisory activity, examination teams have observed credit decisions made pursuant to the terms of programs that for-profit institutions have described as special purpose credit programs. Examination teams have reviewed the terms of the programs, including the written plan required by Regulation B, and the institution's determination that the program would benefit a class of people who would otherwise be denied credit or would receive it on less favorable terms.

In one or more reviews, examiners observed programs that were established pursuant to these provisions of ECOA and Regulation B. For example, in one or more reviews, examiners observed a small business lending program providing credit to minority-owned businesses. The

³⁹ 12 CFR 1002.8(a)(3).

⁴⁰ 12 CFR part 1002, Supp. I, 1002.8, comment 8(a)-5.

program was established and administered pursuant to a written plan and was based on a determination that minority-owned firms were otherwise more likely to be denied credit than non-minority owned firms.

In addition, in one or more reviews, examiners observed a mortgage lending program with special rates and terms for individuals with income below certain thresholds or buying property in areas where the median income was below certain thresholds. The program was established and administered pursuant to a written plan and was based on a determination that applicants meeting one or both of the aforementioned criteria had credit characteristics that otherwise would result either in denial of mortgage credit or in higher-priced mortgage credit.

In every case, special purpose credit program status depends upon adherence to the ECOA and Regulation B requirements for special purpose credit programs. A program, for example, offering more favorable pricing or products exclusively to a particular class of persons without evidence that such individuals would otherwise be denied credit or would receive it on less favorable terms would not satisfy the ECOA and Regulation B requirements for a special purpose credit program. With that in mind, however, the Bureau generally takes a favorable view of conscientious efforts that institutions may undertake to develop special purpose credit programs to promote extensions of credit to any class of persons who would otherwise be denied credit or would receive it on less favorable terms.

2.6 Remedial actions

The public enforcement actions listed below resulted, at least in part, from recent supervisory work. As described above, Supervision also continues to resolve matters using non-public supervisory tools, where appropriate.

2.6.1 Public enforcement actions

The Bureau's supervisory activities resulted in or supported the following public enforcement action.

Citibank, N.A.

On February 23, 2016, the CFPB took action⁴¹ against Citibank, N.A. (Citibank) for illegal debt sales practices. Citibank, from February 2010 until June 2013, provided inaccurate and inflated annual percentage rate (APR) information for almost 130,000 credit card accounts it sold to debt buyers. These buyers then used the exaggerated APR in debt collection attempts. Citibank also failed to promptly forward to debt buyers approximately 14,000 customer payments totaling almost \$1 million. This delayed the updating of account balances and subjected consumers to collection efforts from debt buyers after they had already, in reality, paid off their account. The CFPB ordered Citibank to provide nearly \$5 million in consumer relief and pay a \$3 million penalty for selling credit card debt with inflated interest rates and for failing to forward consumer payments promptly to debt buyers.

2.6.2 Non-public supervisory actions

In addition to the public enforcement actions above, recent supervisory activities have resulted in approximately \$24.5 million in restitution to more than 257,000 consumers. These non-public supervisory actions generally have been the product of CFPB ongoing supervision and/or targeted examinations, involving either examiner findings or self-reported violations of Federal consumer financial law. Recent non-public resolutions were reached in the areas of automobile finance and remittances.

3. Examination procedures

3.1 Coordination with State and Federal regulators on supervisory matters

⁴¹ See Press Release at <http://www.consumerfinance.gov/about-us/newsroom/cfpb-orders-citibank-to-provide-relief-to-consumers-for-illegal-debt-sales-and-collection-practices/>.

The CFPB coordinates certain supervisory activities with appropriate Federal and State bank and nonbank regulators.

At the State level, coordinated supervision helps maximize the agencies' collective effectiveness at protecting consumers, increasing efficiency, avoiding supervisory duplication, and minimizing burden on supervised entities. The CFPB, the Conference of State Bank Supervisors (CSBS), other State agency associations, and 62 agencies in all fifty states, the District of Columbia, Puerto Rico, and Guam have joined a cooperative Memorandum of Understanding (MOU) to facilitate coordinated activities.

In addition, the Bureau and State regulatory agencies (through CSBS) have established a Framework⁴² for cooperation and coordination on State bank and nonbank examinations. The Bureau works with State regulators and other State regulatory associations on nonbank supervisory matters through the State Coordinating Committee (SCC) referenced under the Framework to facilitate scheduling of and participation in coordinated examinations. The Bureau and the SCC have conducted multiple coordinated examinations during the review period and are currently preparing the 2017 nonbank coordinated examination schedule. The Bureau has also implemented processes to share its examination schedules, examination reports, and supervisory letters with its State counterparts.

At the Federal level, the Bureau coordinates with the prudential regulators, including the Office of the Comptroller of the Currency (OCC), the Federal Reserve Banks and the Board of Governors of the Federal Reserve System (Federal Reserve), the National Credit Union Administration (NCUA), and the Federal Deposit Insurance Corporation (FDIC), regarding various supervisory matters. In connection with very large State-chartered banks and credit

⁴² For more on the framework, *see* http://files.consumerfinance.gov/f/201305_cfpb_state-supervisory-coordination-framework.pdf.

unions and certain nonbanks under the CFPB's supervisory authority, the CFPB may coordinate with both the appropriate State and Federal agencies. Representatives of the Bureau and the Federal prudential regulators meet regularly to coordinate supervisory and other activities, and supervisory staff at the Bureau and the Federal prudential regulators confer on a routine basis to discuss examinations and other supervisory matters regarding particular institutions.

3.2 Recent CFPB guidance

The CFPB is committed to providing guidance on its supervisory priorities to industry and members of the public.

3.2.1 Expiration of the suspension of credit card agreement submission under TILA (Regulation Z)

Regulation Z requires credit card issuers to submit their currently-offered credit card agreements to the Bureau, to be posted on the Bureau's website. In April 2015, the Bureau suspended that submission obligation for a period of one year. That suspension has expired, and a submission was due on the first business day on or after April 30, 2016 (*i.e.*, May 2, 2016).⁴³

3.2.2 Interagency guidance regarding deposit reconciliation practices

On May 18, 2016, the CFPB jointly released guidance with the Federal Reserve, the FDIC, the NCUA, and the OCC regarding deposit account reconciliation practices. This guidance informs financial institutions about supervisory expectations regarding customer account deposit reconciliation practices.

The guidance establishes the supervisory expectation that financial institutions will adopt deposit reconciliation policies and practices that are designed to avoid or reconcile discrepancies, or designed to resolve discrepancies so that customers are not disadvantaged. In addition, the

⁴³ Submission instructions can be found on the Bureau's website at <http://www.consumerfinance.gov/credit-cards/agreements/>.

guidance affirms the expectation that financial institutions will effectively manage their deposit reconciliation practices to comply with applicable laws and regulations and to prevent potential harm to customers. The guidance also notes that financial institutions should implement effective CMS to ensure compliance with applicable laws and regulations, and fair treatment of customers. The guidance notes that a financial institution's deposit reconciliation practices may, depending on the facts and circumstances, violate the prohibition against unfair, deceptive, and abusive acts or practices found in Section 5 of the Federal Trade Commission Act and sections 1031 and 1036 of the Dodd-Frank Act.⁴⁴

The Bureau expects to continue coordinating with other agencies on these issues, and will consider appropriate action if law violations are identified at institutions or their service providers, consistent with the Bureau's authority.

4. Conclusion

One of the Bureau's goals is to provide information that enables industry participants to ensure their operations remain in compliance with Federal consumer financial law. The CFPB recognizes the value of communicating program findings to CFPB-supervised entities to aid their efforts to comply with Federal consumer financial law, and to other stakeholders to foster better understanding of the CFPB's work.

To this end, the Bureau remains committed to publishing its *Supervisory Highlights* report periodically in order to share information regarding general supervisory and examination findings (without identifying specific institutions, except in the case of public enforcement

⁴⁴ See, for example, the CFPB's action against Citizens Bank, summarized in the Fall 2015 edition of *Supervisory Highlights*, available at http://files.consumerfinance.gov/f/201510_cfpb_supervisory-highlights.pdf and the Order issued on August 12, 2015, available at http://files.consumerfinance.gov/f/201408_cfpb_consent-order-rbs-citizens.pdf.

actions), to communicate operational changes to the program, and to provide a convenient and easily accessible resource for information on the CFPB's guidance documents.

Dated: June 29, 2016.

Richard Cordray,

Director, Bureau of Consumer Financial Protection.

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